ISSUE DATE: September 29, 1999

DOCKET NO. G-002/M-99-611

ORDER APPROVING LOST MARGIN REPORT WITH MODIFICATIONS

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Edward A. Garvey	Chair
Joel Jacobs	Commissioner
Marshall Johnson	Commissioner
LeRoy Koppendrayer	Commissioner
Gregory Scott	Commissioner

In the Matter of a Petition by Northern States Power Gas Utility to Revise Its Annual Recovery Mechanism for Conservation Improvement Program Expenses and for Approval of Its 1998 DSM Bonus

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PROCEDURAL HISTORY

On May 3, 1999, Northern States Power Gas Utility (NSP or the Company) filed a petition for approval of its 1998 Demand-Side Management (DSM) Financial Incentives and Conservation Improvement Program (CIP) Tracker Account Report.

On July 2, 1999, the Department of Public Service (now known as the Department of Commerce) filed comments. The Department recommended approval of the Company's filing with modifications.

On July 12, 1999, NSP filed reply comments opposing certain Department recommendations.

On July 30, 1999, the Department filed supplemental comments.

On August 9, 1999, NSP filed further reply comments.

On September 16, 1999, the matter came before the Commission for consideration.

FINDINGS AND CONCLUSIONS

I. NSP'S 1998 DSM REPORT

NSP's May 3, 1999 DSM filing included the following major elements:

- continuing lost margins of $378,234 for January, 1998[1]
- a bonus of $70,278
- estimated 1999 lost margins of $236,158
- new CCRA factors to be implemented

II. MAJOR ISSUES IN THE FILING

A. Continuing Lost Margins

1. NSP's Proposal

NSP stated that $357,562 in continuing lost margins (for programs implemented from 1992 through 1997) should be added to its CIP tracker account for January, 1998. NSP limited 1998 continuing lost margin recovery to January because interim rates for the Company's last general rate case went into effect in February, 1998.[2] From that time on, the revenue loss from conservation programs would be included in the test year sales forecast contained in the ongoing rate case. NSP calculated the amount of continuing lost margins for January by applying the ratio of January, 1998 sales to total 1998 sales. Since January accounted for 17 percent of 1998 sales, NSP calculated 17 percent of continuing lost margins, or $357,562, as the amount to add to the CIP tracker.

2. The Department's Recommendation

The Department agreed that NSP should collect continuing lost margins for January, 1998, but disagreed with the Company's allocating 17 percent of total continuing lost margins for the month of January. The Department argued that NSP had not supported the reasonableness of the 17 percent factor, and should therefore be confined to 1/12 of the total, or 8.3 percent, for the month of January.

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[1] This number was later adjusted to $357,562.

[2] In the Matter of the Application of Northern States Power Company's Gas Utility to Change Its Schedule of Gas Rates for Retail Customers within the State of Minnesota, Docket No. G-002/GR-97-1606.

3. Commission Action

The Commission will allow NSP to include 8.3 percent (or 1/12) of its continuing lost margins in the CIP tracker for January, 1998 lost revenues from conservation measures. The Commission agrees with the Department that NSP has not supplied specific information to support its request for a 17 percent recovery–information such as the percent of CIP measures that are weather-sensitive; actual energy usage; or actual monthly savings. Simply allocating according to monthly sales volumes ignores the fact that only some conservation expenditures will affect heating load, while others will affect base load.

The Department's 8.3 percent figure is a logical means of arriving at an estimated recovery, absent exact usage data. The monthly allocation method is currently used in other gas utility DSM filings, is readily understood by regulators and industry, best protects ratepayers from utility over recovery, and lessens the regulatory filing burden for utilities.

For these reasons, the Commission will reject NSP's proposal regarding continuing lost margin recovery and will allow the Company to include $171,678 (8.3 percent of the total continuing lost margin amount) in the CIP tracker for January, 1998 lost margins.

B. Bonus on 1998 CIP Programs

1. NSP's Proposal

Although NSP did not request recovery of lost margins resulting from implementation of 1998 CIP projects in 1998 or following years, the Company did report 1998 lost margins of $281,111. Applying its Commission-approved bonus calculation to that figure, the Company proposed including in the CIP tracker a bonus of $70,278 (25% of $281,111). NSP argued that the *achievement* of 1998 lost margins was enough to trigger bonus recovery; *recovery* of the lost margins was unnecessary to the calculation. NSP argued that the bonus and lost margins are two separate issues; for the purpose of DSM reports, they are simply linked in the process of calculating the bonus.

2. The Department's Recommendation

The Department noted that NSP is *recovering* $0 in lost margins for 1998. Applying the bonus calculator, 25 percent of $0 is $0. According to the Department, NSP should therefore not collect a bonus for 1998.

3. Commission Action

The NSP DSM bonus incentive was established in a pilot program approved on January 7, 1993.[3] The Commission's Order stated in relevant part:

> If NSP Gas achieves 50-100% of its energy savings goal, it will receive a 10% bonus calculated on actual lost margins. If the Company achieves more than 100% of its goal, it will receive a 25% bonus applied to lost margins. The bonus would be in addition to recovery of lost margins, and would be capped at 120% of the program goal.
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> Order at p. 8.

In this case, NSP fulfilled 104.5 percent of its energy savings goals and requests a bonus recovery of 25% of lost margins. The Department does not deny that NSP has fulfilled its program goals, but instead argues that unrecovered lost margins cannot be used to calculate a bonus. The Commission disagrees. A bonus is meant to induce a utility to exceed its savings goals; NSP has succeeded in doing so. NSP has *achieved* its savings goal but declined to seek *recovery* of the lost revenues. The Commission agrees with the Company that it has followed the program, fulfilled its purpose, and should be rewarded with the promised bonus. In this set of facts, rate recovery of the lost margins is irrelevant.

For these reasons, the Commission will allow NSP to record a bonus of $70,278 in the CIP tracker account.

C. Estimated Lost Margins for 1999

1. NSP's Proposal

NSP included in its CIP tracker account estimated 1999 lost margins of $236,158 attributable to conservation expenditures occurring after January 1, 1999. NSP acknowledged that these amounts may eventually be eliminated as a result of the ongoing DSM incentive investigation, Docket No. E,G-999/CI-98-1759. NSP believed that it would be more appropriate to await the results of that investigation, and make adjustments if necessary, than to prematurely remove 1999 estimated lost margins from the tracker.

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[3] In the Matter of the the Proposal of Northern States Power Company's Gas Utility for a Demand-Side Management Incentive Plan, Docket No. G-002/M-92-516, ORDER APPROVING DEMAND-SIDE MANAGEMENT FINANCIAL INCENTIVE PLAN WITH MODIFICATION AND REQUIRING FURTHER FILING.

2. The Department's Recommendation

The Department stated that it has strongly supported the prospective elimination of lost margin recovery for all gas and electric utilities. In NSP's proposed modified DSM financial incentive plan, Docket No. G-002/M-99-550, the Department has recommended eliminating lost margin recovery for NSP, beginning with the 1999 DSM filing. The Department therefore believed that NSP should not be allowed to put 1999 estimated lost margins into its CIP tracker account.

3. Commission Action

The Commission is studying the merits and methodologies of DSM programs in a generic investigation, Docket No E,G-999/CI-98-1759. The Commission is also currently analyzing NSP's proposed modified DSM financial incentive plan in Docket No. G-002/M-99-550; that matter will eventually be before the Commission for consideration.

At the close of the aforementioned DSM investigations, the Commission may (or may not) significantly modify NSP's DSM program. At this time, the better wisdom is to avoid including estimated future lost margins in NSP's current tracker account, pending the resolution of the DSM investigations. 1999 lost margins will be better considered in the context of the full industry-wide and company-specific investigations.

The Commission will reject the proposed inclusion of $236,158 in estimated 1999 lost margins in the tracker account.

The Commission notes that this treatment is consistent with other utilities (except NSP Electric), which do not include estimated lost margins in their CIP trackers but instead record them only after they have been approved by the Commission.

D. Allocation of Tracker Balance in Future Filings

1. NSP's Proposal

NSP proposed 1999 CIP allocators based on the test year sales forecast used in the Company's last general rate case, Docket No. G-002/GR-97-1606, completed in 1998. Since the rate case was so recent, NSP believed that the test year forecast should be close to the current forecast. Furthermore, since there is no usage history for several new rate classifications, NSP believed that the test year sales forecast would be most appropriate.

At the Commission meeting, NSP stated that it would not object to the use of its most recent projected sales forecast for CIP allocators in future filings.

2. The Department's Recommendation

The Department recommended basing NSP's CIP allocators on NSP's most recent test year projected sales forecast, unless unique circumstances arise, causing the Commission to decide the matter on a case-by-case basis.

3. Commission Action

In a rate case, CIP costs are allocated using the test year sales forecast and cost recovery is based on the same sales forecast. Use of the most current sales forecast for CIP allocators in the years after a rate case allows cost allocation and cost recovery (through the CCRA) to continue to be based on the same sales forecast.

NSP's use of the recent rate case test year sales forecast is appropriate for this filing. However, starting with the 2000 filing, the Commission will require NSP to allocate the forecasted tracker balance to the customer classes based on the current sales forecast.

E. Refund to Firm Transportation Customers

On June 11, 1998, the Commission approved a settlement regarding NSP's CIP factor adjustments in an ORDER ACCEPTING SETTLEMENT IN PART, DIRECTING REFUND, GRANTING VARIANCE AND CLOSING DOCKET NO. E,G-002/M-97-985.[4] Among other things, the Commission ordered the following refund to NSP's Firm Transportation (FT) customers:

> The Company shall refund, at shareholders' expense, the amount collected from FT customers in excess of the rate actually approved for FT customers for bills issued prior to July 2, 1997.

NSP's DSM report shows that the Company added $31,001 to the CIP tracker account for the 1998 "refund to FT customers."

Since the Commission's June 11, 1998 Order clearly states that the refund is to be at shareholders' expense, the Commission will require NSP to remove the $31,001 from the CIP tracker account.

At the hearing, the Company stated that it has already noted this error and will make the correction to its CIP tracker balance in its compliance filing following this proceeding.

ORDER

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[4] In the Matter of a Petition by Northern States Power Company - Gas Utility for Approval of Its Proposed Revision to Its Annual Recovery Mechanism Adjustment Factors for Conservation Improvement Program Expenses, Docket No. G-002/M-97-660.

1. The Commission approves NSP's May 3, 1999 DSM filing, with the following modifications and clarifications:

   - NSP may recover $171,678 for lost margins for January, 1998

   - NSP shall remove the $31,001 Refund to Firm Transportation Customers from the CIP tracker account

   - NSP may recover its bonus of $70,278 for 1998 based on the lost margins achieved

2. The Commission approves NSP's Conservation Cost Recovery Adjustment factors based on the forecasted December 31, 1999 tracker balance, adjusted to reflect the Commission's decisions in this Order and with the corrected tracker balance allocated based on January 11, 1999 compliance filing test year sales forecast as recommended by the Department.

3. Within ten days of the date of this Order, NSP shall file a compliance filing that includes a corrected 1998 tracker balance, corrected Attachment 1, pages 1 and 2, and a revised tariff page.

4. On the earliest billing cycle available after the date of this Order, NSP shall implement the CIP adjustment factors as determined in this Order.

5. Starting with NSP's 2000 DSM filing, the Company shall allocate the forecasted tracker balance to the customer classes based on the current sales forecast.

6. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

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